CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
AGRICULTURAL LAND REAL ESTATE PROGRAM

August 16, 2004

This Policy is effective immediately upon adoption and supersedes all previous agricultural land real estate policies.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the Agricultural Land Real Estate Investment Program ("the Program"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Program. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with the Program.

II. STRATEGIC OBJECTIVE

Achieving the highest total rate of return possible consistent with a prudent level of risk, the liabilities of the System, and the investment guidelines contained herein is the strategic objective of this investment program. The System shall consider its agricultural land investments as a component of the specialized equity real estate portfolio. Therefore, such investments shall be required to achieve an appropriate risk-adjusted return.

All investments in agricultural land are subject to the investment processes described in the Statement of Investment Policy for Equity Real Estate, as well as the Delegations of Authority, both incorporated by reference hereto.

The Agricultural Land Real Estate Portfolio ("the Portfolio") shall be managed to accomplish the following:

A. Preserve investment capital;

B. Generate attractive risk-adjusted rates of return for the System as a total return investor, including the following components:

1. Provide, at a minimum, moderate to low cash flow from operations; and

2. Provide appreciation potential resulting from biological growth and active management techniques including, but not limited to, agricultural best practices;

C. Provide a hedge against inflation; and

D. Consider solely the interests of the System's participants and beneficiaries in accordance with California State Law.

III. PERFORMANCE OBJECTIVES

The Portfolio shall be managed to assist the System in achieving its overall long-term objectives as follows:

A. Exceed, after fees, a minimum target real rate of return of 6.5%; and

B. Exceed, before fees, the National Council of Real Estate Investment Fiduciaries Farmland Index ("NCREIF Farmland Index") while maintaining a prudent level of risk.

IV. INVESTMENT APPROACHES AND PARAMETERS

A. Risks

Compared to other real estate investments, agricultural land has several unique risks associated with it. Such risks include, but are not limited to, the following:

1. Government farm and trade policies' influence on investment economies;

2. Demand impact on commodity prices;

3. Currency fluctuations' impact on sensitive exports;

4. Weather and other natural elements' (e.g., unusual precipitation, damaging insects, and flooding) effects on crop yield and value;

5. Costs associated with long-term environmental and food safety issues;

6. Dependency on regional and local water supplies, as applicable;

7. Labor supply and demand factors related to agricultural operations;

8. Specialized nature of professional management; and

9. Stakeholder and consumer responses to industry practices (e.g., pesticide impacts on products, neighboring properties, and farm workers).

The potential for diversification among regions, investment characteristics, and commodity/product types mitigates some of these risks. The use of well-qualified farm managers familiar with the particular commodity and region also can minimize exposure to manageable risks. Furthermore, the advantages of investing in agricultural land include returns that have historically provided an inflation hedge and are negatively correlated with other property types.

B. Diversification

The Portfolio should be well diversified to minimize risks due to overexposure to any one risk factor. Market opportunities and conditions, rather than absolute and precise diversification targets, shall be the overriding factors in constructing the Portfolio. The Portfolio shall be diversified along the following criteria:

1. Asset Mix: Diversification between row crops (commodities such as, corn that must be replanted after harvesting) and– permanent crops (commodities such as, citrus fruits that do not need to be replanted on a periodic basis);

2. Geographic Region (representation in major agricultural regions);

3. Micro-diversification (diversification among micro-climate zones within geographic regions); and

4. Crop Type and Mix (diversification among crops with favorable outlooks and complementary risk/reward profiles, such as, organic vegetables).

C. Size

Agricultural land investment size at the transaction level depends on the opportunities available to the System, with neither small nor large investments dominating the Portfolio. Location, acreage, and price per acre of land purchased are factors determining the size and price of a transaction.

Investment size shall be appropriate to the projected risk/return level of the Portfolio. Large transactions may provide economies of scale in operations and pricing, but at the risk of less liquidity. Conversely, smaller transactions may be more liquid, but may not provide economies of scale in pricing, operations or both, as would those of larger transactions. The appropriate investment size shall also be a function of the Portfolio's target geographical and crop diversification.

D. Structure

Leveraged equity, equity, mortgages, entity-level, and hybrid investment structures are available to the System. The System shall adopt maximums for each type of investment structure prior to investment.

E. Vehicles

The System shall invest in agricultural land on a direct or indirect basis. Should a commingled fund be chosen, the System generally will not commit to investing more than 25% of the target size of any one commingled fund for the diversification provided by having multiple investors in commingled funds.

F. Selection of Management Firms

The System shall select third-party investment advisors, general partners, operating company management teams, or other organizations (collectively referred to as "Management Firms") with specific expertise in agricultural land real estate investments to advise on or co-invest in its agricultural land investments.

1. Management Firms shall provide expertise and experience in locating, negotiating, monitoring, and disposing of agricultural land investments. The System shall establish and document specific relevant criteria for each Management Firm prior to selection to establish the basis on which the selection shall be made.

2. The System shall approve Management Firms based on their successful history or significant potential in managing and implementing agricultural land real estate investment programs, and their reputation.

3. Due to the non-traditional, highly specialized nature of agricultural investment, Management Firms selected shall have investment and asset management discretion as delegated by the System in accordance with the contract, with oversight and periodic review by the System.

4. Management Firms will represent only the interests of the System in these transactions or only the interests of the investor group if

the System co-invests with another client or other clients of the advisors.

G. Investment Criteria

Generally, the System's agricultural investments shall include the following:

1. Land in parcels large enough to achieve operating efficiencies, yet small enough to maintain strong resale potential;

2. Land serviced by readily available water from either local sources or an efficient and secure regional/state water distribution system;

3. Land located in areas characterized by clement climatic conditions conducive to high yield levels;

4. Land demonstrating a consistent and favorable yield history;

5. Land with fertile soil requiring maintenance and enhancement within the cost range of industry norms; and

6. Land located close to market or distribution centers in order to reduce costs.

The System may make exceptions to the criteria listed above upon completion of appropriate due diligence and documented demonstration of the investment efficacy of doing so.

H. Asset Management

Management Firms shall act in a fiduciary capacity and represent the System's interests in asset management decisions, providing daily property management services, as expertise and organizational structure allow. The System shall delegate appropriate authority to Management Firms while requiring that they provide adequate measures of accountability.

The System shall strive for consistency of financial and operational controls and reporting requirements, between the System's timberland and agricultural land investments. As appropriate, the System may allow some minor modifications to reflect the specific asset management requirements of agricultural land investment.

V. GENERAL

The System considers agricultural land a "specialized" investment as it offers the opportunity for the System to earn higher risk-adjusted returns than the Core Portfolio. Agricultural Land Investment also minimizes overall portfolio risk due to its ability to diversify the Equity Real Estate Portfolio.

More specifically, investment in agricultural land provides additional diversification to the System's portfolio, as its returns are negatively correlated with other property types. The structure of investment and long-term real rate of return shall be related to the relative risk of the investment due to geographic location, crop type, crop mix, and relative control over the investment.

VI. VALUATION

Unless otherwise noted, investors, managers, consultants, or other participants selected by the System shall base all calculations and computations on fair-market value, as defined by the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. Where there are differences between USPAP and agricultural industry best practices in appraising agricultural land, the standards of the agricultural industry shall be followed.

VII. ASSET ALLOCATION

As a percent of the total allocated Specialized Real Estate Portfolio, Agricultural Land, in aggregate with other Alternative Strategies,[1] as further defined in the Specialized Policy, shall range from 0 to 30%.

From time to time, the actual investment may fall out of the allocation range~~s~~ prescribed by the Policy. In these instances, adjustments to correct the actual to comply with the Policy shall be implemented on an opportunistic basis over a reasonable time frame (normally within a three-year period). When making such adjustments, investors, managers, consultants, or other participants selected by the System shall give ample consideration to preserving the investment returns of the System.

VIII. GLOSSARY OF TERMS

The Real Estate Glossary of Terms is referenced in the System's Master Glossary of Terms.

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[1] Alternative Strategies also include opportunistic investment, hotels, franchise finance, and mezzanine debt investment programs.